

Auckland Council Group Financial Report

For the six months ended 31 December 2017

Contents

Financial commentary	3
Statements of financial performance	5
Statements of financial position	6
Statements of cash flows	7
Group capital expenditure	8

Financial commentary

Overview

This Auckland Council Group Financial Report covers the six-month period from 1 July 2017 to 31 December 2017. This report is unaudited.

Auckland Council Group (the Group) continues to manage its finances prudently in line with the Annual Plan and with close oversight over operational and capital expenditure. During the six months to 31 December 2017, the Group generated an operating surplus before gains and losses of \$1,053 million, when compared against the phased budget of \$1,219 million. The large surplus for the half year has been mainly due to the recognition in full of 2017/18 rates revenue at the time of the issuance of ratings notice in July in accordance with accounting standards. The difference between actual and budgeted operating surplus of \$166 million is largely driven by the variance relating to the City Rail Link Limited partly offset by the favourable variance in vested asset revenue.

City Rail Link (CRL)

When the Annual Budget 2017/18 was approved, the receivable from the Crown for the transfer of the City Rail Link (CRL) assets was shown as a grant. With the execution of the contracts, the receivable from the Crown for the Crown's 50% reimbursement for stage 1 works, was now recognised as a reduction against the "Property, plant and equipment" in the statement of financial position. Only the reimbursement of the finance charge received from the Crown was recognised in the statement of financial performance.

Revenue

Net unfavourable variance in revenue was \$132 million. Allowing for the unfavourable variance related to the CRL \$229 million leaves a net unfavourable variance of \$97 million, which is driven by:

- higher vested asset revenue of \$83 million due to timing and volume of infrastructure assets received;
- finance income of \$14.5 million from the Crown's reimbursement of City Rail Link stage 1 works and first quarter initial funding to City Rail Link Limited;
- higher grants and subsidies of \$11 million from New Zealand Transport Agency driven by timing of funding;
- growth in port operations of \$7 million driven by new subsidiaries, Conlinxx and Nexus;
- unbudgeted dividend and higher than expected miscellaneous income such as from AT Hop card sales totalling \$5 million;

partly offset by:

- lower than expected development and financial contributions of \$16 million due to timing of developments; and,
- fees and user charges lower than budget by \$7 million mainly due to lower than expected volumes of resource and building consents.

The remaining minor favourable difference is made up of small non material variances.

Expenses

Expenses were higher by \$34 million against phased budget mainly due to the following:

- additional weathertightness costs of \$69 million due to provision assumption changes and increase in repair costs for multi-unit dwelling claims;

partly offset by:

- depreciation and amortisation below phased budget by \$28 million due to revised useful life of roading assets as a result of latest revaluation cycle and delays in the completion of some projects; and,
- underspend of \$7 million in consultancy and professional fees due to timing of roading and strategic projects.

Gains and Losses

Net other losses of \$104 million are primarily due to non-cash book entries, driven by changes in fair value of the interest rate swaps, resulting from lower long-term interest rates.

Financial commentary (continued)

Financial Position

Total Group net assets increased by \$989 million during the first six months of this financial year. The principal contributor being:

- movement in receivables of \$780 million mainly due to net uncollected rates receivables not yet due but recognised at the time of the issuance of the 2017/2018 rating notices in July 2017;
- net increase of \$489 million in property, plant and equipment, intangible assets, investment property and investments in associates and joint ventures, principally City Rail Link Limited for the construction of City Rail Link; and,

partly offset by:

- an increase in borrowings, net of cash and cash equivalents, of \$277 million.

Cash Flow Statement

During the six months, the Group has invested \$760 million, net of equity investment for City Rail Link assets, to expand and renew community and infrastructure assets. These were funded by net operating cash flows of \$638 million and the balance from borrowings.

Statement of financial performance

\$million	Actual	Budget ⁽¹⁾	\$ Variance	Annual Plan
	6 months to 31 Dec 17	6 months to 31 Dec 17	to Budget 31 Dec 17	12 months to 30-Jun-18
Revenue				
Rates	1,698	1,699	(1) ●	1,710
Fees and user charges	629	636	(7) ▲	1,256
Grants and subsidies ⁽²⁾	238	456	(218) ◆	677
Development and financial contributions	91	107	(16) ◆	214
Vested assets	186	103	83 ●	202
Other revenue	137	126	11 ●	277
Finance revenue	24	8	16 ●	8
Total revenue excluding gains	3,003	3,135	(132) ▲	4,344
Expenditure				
Employee benefits	433	431	(2) ●	864
Depreciation and amortisation	423	451	28 ●	925
Grants, contributions and sponsorship	103	101	(2) ▲	134
Other operating expenses	759	702	(57) ◆	1,419
Finance costs	232	231	(1) ●	465
Total expenditure excluding losses	1,950	1,916	(34) ▲	3,807
Operating surplus before gains and losses	1,053	1,219	(166) ◆	537
Net other gains (losses)	(104)	2	(106) ●	-
Share of surplus in associates and joint ventures	42	31	11 ●	61
Surplus before income tax	991	1,252	(261) ◆	598

● Favourable (within 1%) ▲ Unfavourable over 1% and upto 5% ◆ Unfavourable over 5%

⁽¹⁾ Annual Plan figures have been phased for the first six months of the financial year.

⁽²⁾ When the Annual Budget 2017/18 was approved, the receivable from the Crown for the transfer of the City Rail Link (CRL) assets was shown as a grant. With the execution of the contracts, the receivable from the Crown for the Crown's 50% reimbursement for stage 1 works, was now recognised as a reduction against the "Property, plant and equipment" in the statement of financial position. Only the reimbursement of the finance charge received from the Crown was recognised in the statement of financial performance.

Statement of financial position

\$million	As at 31 December 2018 Actual	As at 30 June 2017 Actual
Assets		
Current assets		
Cash and cash equivalents	774	337
Receivables and prepayments	1,125	345
Derivative financial instruments	7	-
Other financial assets	458	276
Inventories	41	35
Non-current assets held-for-sale	133	332
Total current assets	2,538	1,325
Non-current assets		
Receivables and prepayments	9	9
Derivative financial instruments	272	170
Other financial assets	141	141
Property, plant and equipment	43,554	43,361
Intangible assets	526	511
Investment property	743	735
Investment in associates and joint ventures	1,369	1,096
Other non-current assets	11	11
Total non-current assets	46,625	46,034
Total assets	49,163	47,359
Liabilities		
Current liabilities		
Bank overdraft	3	6
Payables and accruals	653	688
Employee entitlements	98	95
Borrowings	1,047	1,125
Derivative financial instruments	6	7
Income tax payable	1	-
Provisions	108	82
Total current liabilities	1,916	2,003
Non-current liabilities		
Payables and accruals	61	49
Employee entitlements	5	5
Borrowings	7,970	7,175
Derivative financial instruments	927	865
Provisions	390	374
Deferred tax liabilities	1,129	1,112
Total non-current liabilities	10,482	9,580
Total liabilities	12,398	11,583
Net assets	36,765	35,776
Equity		
Contributed equity	26,728	26,728
Accumulated funds	1,920	951
Reserves	8,117	8,097
Total equity	36,765	35,776

Statement of cash flows

\$million	6 months to 31 Dec 17 Actual	6 months to 31 Dec 16 Actual
Cash flows from operating activities		
Receipts from customers, rates, grants and other services	1,961	1,764
Interest received	22	7
Dividends received	32	26
Payments to suppliers and employees	(1,149)	(1,058)
Income tax refunded	2	-
Interest paid	(230)	(200)
Net cash inflow from operating activities	638	539
Cash flows from investing activities		
Sale of property, plant and equipment, investment property and intangible assets	65	42
Purchase of property, plant and equipment, investment property and intangible assets	(860)	(762)
Acquisition of other financial assets	(433)	(77)
Proceeds from sale of other financial assets	257	203
Crown reimbursement of City Rail Link stage 1 costs	218	-
Equity investment in City Rail Link Limited	(44)	-
Advances (to)/from external parties	(1)	3
Net cash outflow from investing activities	(798)	(591)
Cash flows from financing activities		
Proceeds from borrowings	2,484	858
Repayment of borrowings	(1,911)	(646)
Proceeds from/(payments for) derivative financial instruments	27	(67)
Net cash inflow from financing activities	600	145
Net increase/(decrease) in cash and cash equivalents and bank overdrafts	440	93
Opening cash and cash equivalents and bank overdrafts	331	128
Closing cash and cash equivalents and bank overdrafts	771	221

Capital Expenditure

6 months to 31 December 2017

Annual Plan - \$843m
Total spend - \$760m (90%)
Variance - \$83m (10%)

